

# Balance Sheet Auditing



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# Agenda

- Overall Objectives
- Analytical Review
- Cash
- Accounts Receivable
- Inventory
- Prepaid Assets
- Other Current Assets
- Property, Plant and Equipment
- Other Long Term Assets
- Accounts Payable/Accruals
- Intercompany Accounts and Equity
- Reconciliations



# Overall Objectives

- Provide an understanding of the balance sheet accounts
- Provide an understanding of the relationships between balance sheet and income statement accounts
- Explain audit techniques for certain balance sheet accounts
- Explain the use of analytical procedures in auditing

# Analytical Procedures

- What are analytical procedures?
  - Variation Analysis
  - Ratio Analysis
  - Trend Analysis
- Why use analytical procedures?
  - Typically, analytical procedures are a quick way to point out unusual trends or activity in account balances



# Analytical Procedures (cont)

- Variation Analysis
  - Used to note unusual variations between certain related accounts or to note variations between different time periods for one account
  - Also used to note variances between budgeted and actual amounts
- What types of accounts are related?
  - Sales and A/R, COGS and Inventory, PP&E and Depreciation, Gaming Revenues and Promotional Allowances, etc.
- Why are the relationships important?

# Analytical Procedures (cont)

- Time Periods to Review
  - Balance Sheet accounts are typically reviewed month to month or the most current month to the previous audited period, which is typically year end.
  - Income Statement accounts are typically reviewed using the same month or period of time from one year to the next, especially in the hospitality industry. WHY?
  - These accounts are also compared against budgeted amounts.

# Analytical Procedures (cont)

- Ratio Analysis
  - Use of ratios to analyze
  - Types of ratios?
    - Current Ratio
    - Debt to Equity
    - Inventory Turnover
- Gaming Specific Ratios
  - Hold %
  - RevPAR
  - Average Daily Rate
  - Occupancy %
  - Metrics against dollar values (i.e. number of markers, fills per \$1,000 in drop)

# Analytical Procedures (cont)

- Trend Analysis
  - Review of trends in accounts. This is part of variation analysis.
  - Account balances climbing or declining at certain times of the year.
- Why would this happen?
  - Earnings Management
  - Bonuses
  - Proper Accounting
  - Other unusual items



# Detail Audit Testing

- Typically audit testing is done using samples or scopes.
- You also have to determine which accounts to test and which specific items in that accounts also.
- The detail testing is done in conjunction with analytical procedures, observations, inquiries and risk analysis to address all areas of concern.

# Detail Audit Testing (cont)

- Difference between materiality and scope/sample
  - Materiality is the overall amount as to which the audit is measured and the threshold at which it is performed.
  - Scope/sample is how many specific details/support you test for a balance.

# Detail Audit Testing (cont)

- Difference between materiality and scope/sample
  - Scope/Sample
    - Can be based on amounts over a dollar threshold, a statistical sample, a judgmental sample, an undetermined number of items to obtain a specific coverage of the account balance, or just a specific number of items (this can be based on risk or type of account or type of transactions)
    - You must document the support for the sample as to why it was appropriate to sample and why the sample scope was adequate



# Cash

- Cash in Bank
- Cash on Hand
- Restricted Cash
- Chips/Tokens
- Hopper Loads
- Clearing Accounts
- Risks with Cash?
  - Overstatement
  - Unknown restrictions
  - Theft
  - True count

# Cash (cont)

- Standard Audit Procedures
  - Trace amounts to reconciliations/support and to the general ledger
  - Test bank reconciliations for cash in bank
    - Agree to bank statement
    - Test reconciling items
      - Outstanding Checks
      - Deposits in transit
      - Accounting errors
  - Agree cash on hand to cage accountability documentation and underlying support
  - Agree hopper load and chip/token balances to count sheets
  - Clearing Accounts
    - Typically used to estimate revenue as all amounts are not counted each night
    - Clearing accounts should “clear” the following day or next count, as the true revenue/cash numbers are available
    - Agree the clearing account estimate to the supporting calculation and then the adjusting entry to the actual count documentation

# Cash (cont)

- Additional Procedures
  - Discuss any restrictions with management
  - Review bank agreements for restrictions
  - Confirm balances with the bank (primarily performed by external audit firms)



# Accounts Receivable

- Standard Audit Procedures

- Trace amounts to reconciliations/support and to the general ledger
- Review A/R aged detail trial balances for large/unusual balances
  - Typically we would review casino and hotel receivables based on materiality
  - What is large/unusual?
  - Discuss and document any large balances, as defined by materiality, that are over 180 days old with management
  - Test the aging of the trial balance by selecting a sample of accounts receivables and tracing them to the original invoice/marker to ensure the aging is accurate in the trial balance
- Review the allowance for doubtful accounts support and calculations
  - Again, typically for hotel and casino, based on materiality
  - Ensure the schedules agree to the aged trial balances and the g/l
  - Recalculate the schedules on a scope basis
  - Discuss any changes in the schedules/calculations since the previous audit with management
  - Discuss and document any known collectibility issues with management.

# Accounts Receivable (cont)

- Additional Procedures
  - Vouching subsequent receipts
  - Confirmation of receivable balances
    - Why is this difficult in the casino industry?

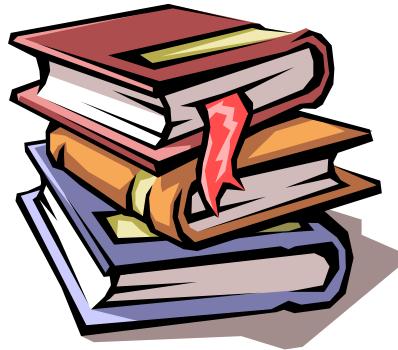


# Inventory

- Standard Audit Procedures
  - Trace amounts to reconciliations/support and to the general ledger
  - Review the inventory system support for the material inventory accounts and ensure the balances agree to the inventory balance
    - Typically F&B and Retail
  - Discuss the accounting methodology for the PAR values of material inventory accounts, ensure the property follows corporate accounting policy and obtain detail support for the amounts
  - Review the detail of “Other Inventory” if material and review invoice/payment support of any material items

# Inventory (cont)

- Observation of inventory
- Sample counting
  - Upstream/downstream testing
- Price Testing
  - FIFO, LIFO



# Prepaid Assets

- Standard Audit Procedures
  - What is a prepaid asset?
    - A prepaid asset is when the company pays for something in advance of incurring the expense
  - What are some examples?
    - Prepaid property taxes, prepaid gaming taxes, prepaid rent
  - Trace amounts to reconciliations/support and to the general ledger
  - Review a detail of all material prepaid accounts
    - Obtain the detail invoice and payment support for a sample of the items and agree to the schedule
    - Recalculate the amount that is “prepaid” and agree to the schedule



# Other Current Assets

- Standard Audit Procedures
  - What are some examples?
    - Deposits (due within one year)
  - Review a detail of all material other asset accounts
    - Trace amounts to reconciliations/support and to the general ledger
    - Obtain the detail invoice and payment support for a sample of the items and agree to the schedule
    - Ensure the amount is “current” or will be utilized within one year.

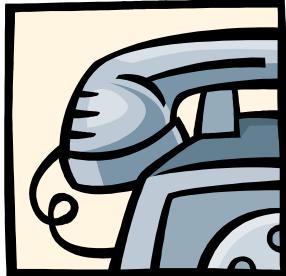


# Property, Plant and Equipment

- Standard Audit Procedures
  - Review the rollforward of PP&E and Accumulated Depreciation from beginning of year to current audit date.
    - Ensure the amounts tie to the g/l as of the previous year end and the amounts agree to the current g/l.
    - Review the support for any retirement/sales of assets over a defined dollar limit.
      - Agree the support to the fixed asset ledger and the recalculate the gain/loss and agree to the income statement.
    - Agree change in depreciation to the depreciation expense line item.
    - Perform a reasonableness test on the depreciation expense.
      - Test of average amounts, average depreciable lives, ratio of depreciation to fixed asset balance.

# Property, Plant and Equipment (cont)

- Standard Audit Procedures
  - Obtain a listing of asset additions from the beginning of the year to the current audit date.
    - Ensure the amounts tie to the rollforward.
    - Test the invoice/support and payment support for all additions over a defined scope.
      - Ensure the amounts are properly capitalizable and are capitalized in the correct period.
  - Review the Detail Fixed Assets listing for any unusual amounts.
    - Review a sample of asset descriptions from the listing and ensure the asset is properly classified and the depreciable life is consistent with policy.



# Other Long-Term Assets

- Standard Audit Procedures
  - What are some examples?
    - Deferred Charges, Chips/Tokens, Goodwill, Customer Lists, Other Intangible Assets
  - Obtain the detail listing of these assets and test any material items.
    - Trace amounts to reconciliations/support and to the general ledger
    - Review the invoice/support and the payment support for any items above the defined dollar level.
    - Ensure they still have “value”

# Accounts Payable/Accruals

- Standard Audit Procedures
  - Trace amounts to reconciliations/support and to the general ledger.
  - Review the Aged Accounts Payable Trial Balance for unusual/large balances.
    - What is large/unusual?



# Accounts Payable/Accruals (cont)

- Obtain the check registers for all bank accounts from which A/P checks are written from the day after the balance sheet date you are auditing through the date of your fieldwork.
  - Request and review the invoices and check copies (if available) for all checks over the predetermined dollar amount
  - Ensure the expenses/assets were incurred/purchased and recorded in the proper period
    - For all items relating to the period before the balance sheet date, the items should be in A/P or accruals, and therefore you can trace to those accounts.
    - For all items relating to the period subsequent to the balance sheet date, the items should not be included in A/P or accruals, so ensure the amounts are not listed

# Accounts Payable/Accruals (cont)

- Obtain a detail of all material accruals
  - Typically the material accruals will be payroll and the related taxes, medical insurance, insurance claims, accrued taxes (other than payroll), accrued legal, chip/token liability, accrued player points
    - Request support/calculations and review for reasonableness/accuracy.
    - Review the trends for the accruals for spikes or valleys which could indicate issues.



# Intercompany and Equity Accounts

- Typically the audit team will ensure intercompany accounts eliminate in consolidation and review the process for the posting and reconciliation of intercompany accounts.
- Audit procedures for equity accounts include confirmation of balances, rollforward of equity, reviewing equity issuance documents and the recalculation/verification of “other comprehensive income.”



# Reconciliations

- Review reconciliations for balance sheet accounts over a predetermined dollar amount.
  - Agree the balances to both the detail and the general ledger.
  - Test/verify any reconciling items over a predetermined dollar amount.
  - Ensure the adjustments are posted timely.
  - Ensure there are not significant unreconciled amounts listed in the reconciliation.

# The End

## Any Questions?

